

BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Wisconsin Energy Corporation)	
for Approval of a Transaction by which)	
Wisconsin Energy Corporation Would Acquire)	Docket No.: 9400-YO-100
All of the Outstanding Common Stock of)	
Integrus Energy Group, Inc.)	

**REBUTTAL TESTIMONY OF
SCOTT LAUBER IN SUPPORT OF APPLICATION
BY WISCONSIN ENERGY CORPORATION**

1 Q. Please state your name, business address, and title.

2 A. My name is Scott Lauber. My business address is 231 West Michigan Street,
3 Milwaukee, Wisconsin 53203. I am Vice President and Treasurer for Wisconsin Energy
4 Corporation (“WEC”), Wisconsin Electric Power Company and Wisconsin Gas LLC.

5 Q. Did you previously file direct testimony on behalf of WEC in this docket?

6 A. Yes.

7 Q. What is the purpose of your rebuttal testimony in this proceeding?

8 A. My rebuttal testimony presents WEC’s positions on several of the merger conditions
9 proposed in direct testimony filed by Staff and intervenors. I am sponsoring an exhibit
10 (Ex.-WEC-Lauber-4) which lists each of the 93 conditions proposed by Staff and
11 intervenors and summarizes WEC’s response to each proposed condition. As indicated
12 on Ex.-WEC-Lauber-4, WEC is amenable to approximately 50 of the proposed
13 conditions as written or with slight clarification, and they are not discussed any further in
14 our rebuttal testimony. My rebuttal testimony will address issues raised by Staff and
15 intervenors regarding certain conditions in the areas of accounting and finance which

1 WEC opposes or wishes to clarify. Mr. Leverett's rebuttal testimony focuses on
2 proposed conditions in other areas, and Mr. Reed's and Dr. Hunger's rebuttal testimony
3 will focus on general merger and acquisition concepts and market power, respectively.

4 Q. Please describe how your Ex.-WEC-Lauber-4 is organized.

5 A. This exhibit forms the backbone of my and Mr. Leverett's rebuttal testimony, and it will
6 be helpful for the reader to have it at hand as he or she reads our testimony. The exhibit
7 builds off of Ex.-PSC-Hubert-1, and lists all 93 conditions proposed by Staff and
8 intervenors in direct testimony. My testimony addresses the various proposed conditions
9 in the order they appear in the exhibit.

10 The first column in the exhibit contains item numbers 1 through 93, which are
11 used throughout the testimony to identify specific proposed conditions. The second
12 column identifies the Staff or intervenor witness who proposed the condition. The third
13 column, labeled "Category," uses the categories of conditions identified by Ms. Hubert in
14 Ex.-PSC-Hubert-1. The chart is sorted alphabetically according to these categories. The
15 fourth column, labeled "Condition," adopts the shorthand labels used by Ms. Hubert for
16 the Staff conditions and assigns labels for the conditions proposed by intervenors. The
17 chart is sorted secondarily by these conditions, so like conditions appear consecutively.
18 The fifth column adopts the "Proposed Language" from Ex.-PSC-Hubert-1 and
19 intervenor testimony. The sixth column indicates whether WEC accepts each proposed
20 condition outright, accepts it with clarification, and so forth. For conditions that are not
21 accepted outright, the last column indicates whether Mr. Leverett or I discuss the
22 condition in our rebuttal testimony.

1 I would note that in several instances, Staff and intervenors have proposed
2 identical or very similar conditions. To prevent confusion, WEC proposes that the
3 Commission adopt the Staff iteration of these conditions. In these situations, Ex.-WEC-
4 Lauber 4 indicates that WEC accepts the Staff condition, and references that acceptance
5 for the intervenors' proposed conditions. To summarize, WEC suggests that the
6 Commission accept the Staff statement of the following conditions:

- 7 • Accounting -- Acquisition Premium (Item 3)
- 8 • Accounting -- Proof of Exclusion (Item 8)
- 9 • Accounting -- Purchase Accounting/Push-down Accounting (as clarified)
10 (Item 10)
- 11 • Accounting -- Transaction Cost Recovery (as clarified) (Item 14)
- 12 • Financial -- Money Pools and Guarantees (as clarified) (Item 43)
- 13 • Rates -- Levelization of WEPCO and WPSC Rates (as clarified) (Item 68)

14 Q. Do you have any opening comments?

15 A. Yes. My impression from reading testimony submitted by Staff and several of the
16 intervenors is that a number of their proposed conditions are a response to the
17 misapprehension that, without such conditions, customers do not stand to benefit from
18 WEC's acquisition of Integrys. This is not true. As discussed at considerable length in
19 Mr. Reed's direct and rebuttal testimony, we expect customers to see annual savings in
20 the range of 3-5% of controllable O&M over the long term and to realize various
21 qualitative benefits. Additionally, Staff witness Mr. Detmer has identified the potential
22 for hundreds of millions of dollars of savings as a result of joint electric resource
23 planning (a possibility we mentioned in our application).

1 Moreover, we are committing to identify and track all transition costs and to
2 recover such costs only if they are outweighed by measurable and documented
3 acquisition-related savings. By committing to this undertaking, we will be able to
4 demonstrate that savings are passed on to customers via the ratemaking process. This
5 renders several of the proposed proxies for customer benefits -- e.g., bill credits, escrow
6 write-offs, earnings caps, and so forth -- unnecessary and, in fact, unjustifiably punitive.
7 Mr. Leverett addresses these proxies in greater detail in his rebuttal testimony.

8 Q. Looking at Ex.-WEC-Lauber-4, the first condition that you have indicated needs
9 clarification has to do with push-down accounting (items 10 and 11). What is the issue
10 here?

11 A. We are able to accept the principal thrust of this condition -- that push-down accounting
12 not be imposed upon or utilized by the Wisconsin operating companies for regulatory
13 accounting or ratemaking purposes -- with the clarification that the condition applies to
14 the goodwill associated with the proposed transaction. However, with respect to Staff's
15 proposal that push-down accounting not be used for financial accounting purposes, we
16 are obligated to comply with SEC regulations. While those regulations currently do not
17 require push-down accounting of the goodwill associated with the transaction for
18 financial accounting purposes, should that requirement change in the future, we request
19 flexibility to comply with such regulations. Therefore, we propose striking the words
20 "financial and" from Staff's proposed condition. Mr. Kollen, on behalf of WIEG,
21 suggests denying push-down accounting for transaction costs; however push-down
22 accounting has to do with goodwill, not transaction costs.

1 Q. The next of the conditions in the “Accounting” category that you have indicated needs
2 some clarification is “Transaction Cost Recovery,” as reflected in item 14 of Ex.-WEC-
3 Lauber-4. Could you please provide that clarification?

4 A. We assume that where Ms. Bartels refers to “costs to achieve the transaction” she means
5 “transaction” costs as defined in item 12 of Ex.-WEC-Lauber-4. With that clarification,
6 we accept the condition.

7 Q. You next indicate that clarification is needed with respect to conditions on affiliate
8 transactions, as reflected in item 17 and 18 of Ex.-WEC-Lauber-4.

9 A. It is not entirely clear to me whether clarification is necessary, but here is how I
10 understand the proposed conditions. Ms. Bartels appears to be saying that WEC shall be
11 obligated to comply with the terms of Wisconsin’s Holding Company Act, Wis. Stat. §
12 196.795. Assuming that is what she means, we obviously have no objection to such a
13 condition. Mr. Kollen’s proposed condition appears to mean that WEC may not recover
14 from ratepayers twice for identical services performed by operating utilities and the
15 service company. While I am not sure how such a situation could come to pass, we are
16 amenable to such a condition.

17 Q. What is the next proposed condition you would like to address?

18 A. Mr. Leverett addresses several proposed conditions regarding ATC ownership and
19 governance and making Wisconsin the “most favored nation.” However, I will discuss
20 Staff’s two proposed conditions concerning dividends to the holding company, and CUB
21 witness Mr. Hahn’s proposal on that topic (items 36 through 38 of Ex.-WEC-Lauber-4).
22 The two conditions proposed by Staff witnesses Ms. Hubert and Mr. O’Donnell -- which
23 restrict dividends that would cause the utilities to fall beneath floor and average common

1 equity ratios -- appear to duplicate the conditions typically imposed in utility rate cases,
2 including WEPCO's, Wisconsin Gas's and WPSC's recently-concluded rate cases.

3 While there is some danger of imposing conditions in this proceeding that inadvertently
4 create tension with rate case orders, to the extent the intent of these conditions is to
5 duplicate the requirements of the rate case order, we do not oppose them.

6 Mr. Hahn's proposed dividend restriction condition -- that payout ratios should
7 not exceed each company's average payout ratio for the most recent four years without
8 Commission approval -- would be inconsistent with the decisions in the most recent rate
9 cases, which set the terms for dividend payments to the parent. As noted in item 50 of
10 Ex.-WEC-Lauber-4, we are agreeing to the condition proposed by Ms. Bartels that WEC
11 be bound by the provisions of the Holding Company Act. Mr. Hahn's proposed
12 condition would be superfluous, given the Commission's authority to restrict dividend
13 payments under the Holding Company Act. We therefore object to item 38.

14 Q. The next issue on the table is CUB witness Mr. Hahn's and WIEG witness Mr. Kollen's
15 proposals that WEPCO, Wisconsin Gas and WPSC be subject to an earnings cap that
16 would return any earnings above each company's authorized return on equity to
17 customers (items 39 and 40 of Ex.-WEC-Lauber-4). What is your reaction to these
18 proposed conditions?

19 A. We object to these conditions for two reasons. First, they are asymmetric. Mr. Hahn and
20 Mr. Kollen do not propose a corresponding adjustment that requires a "true up" of utility
21 earnings when they fall short of the authorized level. Second, their proposals may
22 constitute retroactive ratemaking, given their backward-looking orientation.

23 Q. Is there anything else you would like to add on the topic of authorized return on equity?

1 A. Yes. Commission Staff witness Ms. Kettle submitted an exhibit in which she claims to
2 have calculated “over-earnings” of \$474 million over the last thirteen years. This, Ms.
3 Kettle argues, supports her proposed condition that WEC write off the \$114 million “old”
4 transmission escrow balance. However, Ms. Kettle’s proposed measure of “regulatory
5 earnings” is entirely inconsistent with the fuel rules, which have been in place since
6 March of 2011. Under the fuel rules, items such as charitable contributions, penalties,
7 costs of political and related activities, promotional advertising and earnings from non-
8 utility assets are specifically excluded from calculations of earnings. Therefore, Ms.
9 Kettle’s method of calculating “over-earnings” is inconsistent with the governing rules,
10 and should be disregarded. In his rebuttal testimony, Mr. Leverett offers additional
11 reasons why the Commission should reject all proposals to write off transmission escrow
12 balances.

13 Q. Has Staff ever proposed this alternative method of calculating “over-earnings” in the
14 past?

15 A. Yes, they have done so several times. In each case, the Commission declined to adopt
16 Staff’s definition of over-earnings, and instead applied the fuel rules definition as written.
17 In fact, during the technical hearing in 5-UR-106, Ms. Kettle admitted that she could not
18 “point to any provision in the Wisconsin statutes or the administrative code that sets forth
19 a method for calculating . . . regulatory return” in the way she proposed in that case, and
20 proposes again now.

21 Q. WIEG and Staff propose conditions to the effect that the Commission should deny rate
22 recovery of any increased financing costs due to downgrades of credit ratings as a result

1 of the transaction (items 41 and 42 of Ex.-WEC-Lauber-4). Can WEC accept these
2 conditions?

3 A. No, we cannot. First, it is important to note that the credit rating agencies have not
4 downgraded WEC's or any of its affiliates' credit ratings since the transaction was
5 announced. In fact, the Wisconsin regulated utilities' ratings have remained stable, with
6 no negative outlook. Second, even assuming a downgrade were to occur, it would be
7 nearly impossible to disentangle the factors contributing to such a hypothetical
8 downgrade -- some of which might be related to the transaction and some of which might
9 not -- and then to determine how much of any increased borrowing cost is due to the
10 downgrade as opposed to the myriad other forces in the credit markets. Therefore, any
11 purported quantification of "increased financing costs due to downgrades of credit ratings
12 as a result of the transaction" is likely to be speculative, at best. Finally, I should note
13 that one of the potential reasons credit ratings could be downgraded would be if the
14 Commission imposed unduly burdensome conditions in this case. It seems inequitable
15 that the Commission could contribute to a downgrade resulting in increased costs, and
16 then penalize the utility for incurring those costs.

17 Q. Which conditions would you like to address next?

18 A. Next I would like to discuss two related proposed conditions relating to money pools and
19 guarantees, which appear in items 43 and 44 of Ex.-WEC-Lauber-4. To the extent these
20 conditions seek to forbid participation in a money pool (i.e., an arrangement under which
21 cash is shared between WEC Energy Group and subsidiaries), we have no objection to
22 them. It should also be noted that the Holding Company Act places certain restrictions
23 on lending and guarantees within a holding company system, and WEC has agreed to a

1 condition that it will be bound by the Holding Company Act (which it would be in any
2 event). To the extent the proposed conditions are intended to go beyond the requirements
3 of that Act, however, we object to them as unnecessary.

4 Q. CUB witness Mr. Hahn proposes that each regulated Wisconsin subsidiary maintain its
5 own credit rating and portfolio of debt, independent from WEC Energy Group (item 45
6 of Ex.-WEC-Lauber-4). How do you respond?

7 A. Again, to the extent that Mr. Hahn is proposing that WEC Energy Group and its regulated
8 subsidiaries not participate in a money pool, we have no objection to that condition.
9 Today, WEPCO, Wisconsin Gas and WPSC each maintain their own credit rating, but a
10 condition that they do so forevermore is unsupported by any evidence and unwarranted
11 given the uncertainty of future events. The Commission should reject such a condition.

12 Q. Which condition do you wish to discuss next?

13 A. Staff witnesses Hubert and O'Donnell propose to require certain reporting relating to debt
14 held at the holding company level (item 46 of Ex.-WEC-Lauber-4). We do not oppose
15 this condition but would propose a slight modification to the schedule of such reporting.
16 Specifically, to ease the administrative burden of complying with this condition, we
17 propose filing such a report 90 days after closing as the Staff witnesses request, and
18 annually thereafter (as opposed to every 90 days).

19 Q. Staff witness Ms. Bartels proposes that WEC provide notice of "any filing by any of the
20 holding company or its subsidiaries with other state commissions and FERC that is
21 relevant to the Commission's authority and obligations." (Item 52 of Ex.-WEC-Lauber-
22 4). Is there any issue with that request?

1 A. We do not oppose this condition in principle, but it will need to be better fleshed out.
2 WEC Energy Group and its subsidiaries will be subject to regulation in four states and at
3 FERC, and will presumably be making hundreds of filings in each jurisdiction each year,
4 ranging from the mundane to the consequential. While it is conceivably possible to ERF
5 every single shred of paper that is filed in any jurisdiction, we do not anticipate that doing
6 so would be particularly helpful to the Commission or Staff. We commit to working with
7 Staff to reach an agreement about what sorts of filings they would like to see, and would
8 be amenable to a condition to that effect.

9 Q. You indicate that item 53 of Ex.-WEC-Lauber-4 needs clarification. What is the issue?

10 A. We agree to a condition that WPSC will achieve average speed of answer of not more
11 than 90 seconds as required by the administrative code. However, given this
12 commitment the requirement that the utility develop and submit a plan for reaching the
13 average speed of answer standard is unnecessary, and amounts to improper micro-
14 management of utility operations.

15 Q. What is the company's position on the proposed conditions on charitable contributions
16 (item 54 of Ex.-WEC-Lauber-4)?

17 A. We agree to the second alternative, which is that no condition be required. In the
18 application, we pledged to "maintain WEC's and Integrys's long tradition of making
19 significant contributions to regional economic development and generous support of
20 educational, cultural, and charitable activities in the communities they serve." Charitable
21 donations fluctuate from year to year based on a variety of factors, not least of which are
22 needs in the community as well as the financial condition of the company. However, we
23 have every intention to continue with our long-standing practice. Setting an artificial

1 level for such contributions would amount to micro-managing the utilities and would
2 intrude on management's authority to prudently manage the businesses in the best
3 interests of ratepayers and the public.

4 Q. Your exhibit indicates that the company does not agree to the three alternative conditions
5 proposed by Staff witness Ms. Nieto concerning the WEPCO/Wisconsin Gas call center
6 (item 56 of Ex.-WEC-Lauber-4). Why not?

7 A. In our view, these conditions are not necessary. Ms. Nieto has not identified any
8 particular concerns with WEC's customer service operations, and she merely speculates
9 that cost-cutting measures may negatively affect customer service. Also, as Ms. Nieto
10 notes, "both We Energies and WPSC have a long history of working with the
11 Commission to ensure a high level of customer service especially when changes to
12 policies or procedures may result in additional complaints from customers to the
13 Commission." (Direct-PSC-Nieto-8). Certainly, WEC Energy Group and its affiliates
14 will continue to work with the Commission on these issues and will comply with all
15 applicable notice and filing requirements under the statutes and administrative code.
16 However, the level of detail, study and notice that Ms. Nieto proposes are neither
17 warranted nor supported by the record or applicable regulations.

18 Q. What is your response to Ms. Nieto's proposed condition concerning WEC's potential
19 adoption of Integrys Customer Experience (ICE) software developed by Integrys (item 59
20 of Ex.-WEC-Lauber-4)?

21 A. We agree to Ms. Nieto's proposal that we notify the Commission at least 30 days before
22 WEPCO or Wisconsin Gas implements any customer service policy changes as a result
23 of any potential implementation of ICE software. By 30 days before implementation, any

1 plans to use the ICE software will be sufficiently developed to allow a meaningful
2 discussion with the Commission on the issue.

3 Q. Commission staff witness Ms. Nieto proposes conditions relating to the location of WEC
4 Energy Group's corporate and operational headquarters (items 61 and 62 of Ex.-WEC-
5 Lauber-4). What is the company's position on those conditions?

6 A. Ms. Nieto proposes two alternatives for each. The first alternative for each condition --
7 that corporate headquarters will be located in Wisconsin and critical decisions affecting
8 energy policy in Wisconsin will continue to be made in Wisconsin; and that operational
9 headquarters will be maintained in Milwaukee and Green Bay -- are consistent with
10 commitments WEC made in its application. As the company has indicated in discovery,
11 there are no present plans to move either the corporate or operating headquarters.
12 However, the proposed requirement that the Commission approve any movement of those
13 headquarters at any time is not acceptable to the company. Certainly, to the extent such
14 approval might be required under the statutes, the company would seek such approval,
15 but no independent order point on this issue is warranted.

16 Q. Ms. Nieto also proposes three alternative conditions relating to consolidation or transition
17 of Low Income Programs (LIPs) (item 63 of Ex.-WEC-Lauber-4). Are any of these
18 proposed alternative conditions workable?

19 A. Yes, the third one is. This would require Commission Staff to review the LIPs in future
20 rate cases to ensure that they continue to produce optimal benefits. This condition would
21 adequately ensure that the LIPs continue their good track records.

22 Q. You have indicated the need to clarify the proposed condition having to do with
23 levelization of WEPCO and WPSC rates (items 66 through 68). What is the issue there?

1 A. WIEG witness Mr. Kollen seeks to prohibit, apparently forever, levelization of rates
2 between WEPCO and WPSC, and Great Lakes Utilities' ("GLU") witness Dr. Lowry
3 seeks such a prohibition for five years, and a concurrent bar on restructuring the
4 combined company that would eliminate the standalone status of WPSC and WEPCO.
5 As noted in my direct testimony, we have committed to confer with Commission Staff
6 and affected parties regarding any legal merger of utilities or levelization of rates
7 between the utilities, and to propose such action only when and if it can be shown to be in
8 the best interests of customers. (Direct-WEC-Lauber-16-17). This is generally
9 consistent with Commission Staff witness Ms. Hubert's proposed condition on this issue.
10 However, we cannot accept her proposed requirement that WEC Energy Group "develop
11 a proposal that is acceptable to the parties." Without a crystal ball, it is impossible to
12 know whether such a consensus could ever be reached. However, we will commit to
13 following all applicable laws and conferring with stakeholders if and when we propose to
14 merge utilities or levelize rates, and in any proceeding the Commission would be
15 empowered to craft a solution that will provide benefits to customers, whether or not each
16 and every interested party agreed with each and every aspect of such action.

17 Q. Do you have any general observations about Ms. Bartels' testimony on the role of the
18 service company in WEC Energy Group?

19 A. Yes. While Ms. Bartels speculates about several ways in which service companies might
20 be conduits for improper subsidization, lead to sharing of confidential information, and so
21 forth, it is difficult for us to address her hypothetical concerns, other than to commit to
22 acting within the dictates of the various statutes relating to affiliate transactions.

1 Ultimately, Ms. Bartels offers several discrete proposals concerning the service company,
2 many of which we agree to outright, and some of which are clarified below.

3 Q. Ms. Bartels proposes in item 70 of Ex.-WEC-Lauber-4 that “if, in the future, WEC
4 Energy and/or any of its subsidiaries are down-sized in any significant way, the absolute
5 cost allocation to WEPCO, WG, and WPSC shall not increase unless the utilities
6 demonstrate that the cost allocation is just and reasonable.” What is your reaction to this
7 proposal?

8 A. We cannot agree to this proposed condition. Without knowing the circumstances of any
9 particular down-sizing, we cannot know whether increases to the absolute cost allocations
10 to WEPCO, WG and WPSC is a reasonable result or not. In addition, there may be other
11 reasons why the allocations increase following a down-sizing. The Commission will
12 retain full oversight of the service company’s cost allocations and can investigate any
13 increased allocations to WEPCO, WG and WPSC that occur for any reason to ensure
14 their reasonableness.

15 Q. What would you like to clarify about item 72 of Ex.-WEC-Lauber-4, which concerns
16 audits of the service company?

17 A. This condition appears to duplicate authority that the Commission already has under the
18 statutes, given its continuing jurisdiction over holding company structures and affiliated
19 interest arrangements. WEC has also agreed to a condition that the Commission will
20 have continuing jurisdiction over the service company structure (item 73 of Ex.-WEC-
21 Lauber-4). Therefore, this condition is unnecessary.

1 Q. Do you have any comments on the four proposed ground rules related to performance of
2 services by the service company, as proposed by Ms. Bartels (item 74 of Ex.-WEC-
3 Lauber-4)?

4 A. These conditions appear to repeat several requirements of the Holding Company Act, and
5 so long as that is the intent of the conditions, we agree to them.

6 Q. Ms. Bartels makes two additional proposals concerning services provided by the service
7 company (items 75 and 76 of Ex.-WEC-Lauber-4). What is the company's position on
8 these proposed conditions?

9 A. Ms. Bartels first proposes that the "service company shall be limited to performing
10 services where there are efficiencies and economies of scale that could not be achieved if
11 the services were not performed by the service company." We understand this to mean
12 that the holding company should continue to prudently manage the utilities in the best
13 interests of customers, including with respect to division of labor between the utilities and
14 the service company, taking into consideration both quantitative and qualitative factors.
15 To the extent this is the thrust of the condition, we accept it.

16 Ms. Bartels also proposes that "the service company may not provide services to
17 companies that are not part of the holding company system without the Commission's
18 approval. The service company may temporarily provide transition services to an entity
19 that is transferred to a third party. The service company shall apply any earnings as a
20 deduction to the amounts reimbursable by its associated affiliates." We do not oppose
21 this condition (although it appears to go beyond the supervisory authority granted to the
22 Commission under the public utility statutes). However, we request better definition of
23 what Ms. Bartels means by "temporary" and further clarification that with the

Commission's approval, the service company could provide services to companies that are not part of the holding company system on a permanent basis.

Q. Item 77 of Ex-WEC-Lauber-4 would give the Commission approval authority over allocation methodology and factors. Would you like to respond to that proposed condition?

A. This appears to us to duplicate the approval authority granted by the statutes; to the extent that is the intent of this proposed condition, we have no objection to it. Indeed, we have submitted proposed affiliated interest agreements containing allocation methodology and factors to the Commission for approval in connection with this proceeding.

Q. You indicate in items 82 through 85 of Ex.-WEC-Lauber-4 that you oppose the conditions proposed by WIEG witness Mr. Kollen and CUB witness Mr. Hahn relating to non-recovery of transition costs. Please explain.

A. Mr. Kollen and Mr. Hahn propose, in various ways, to deny outright recovery of transition costs (which are more helpfully conceived of as the cost of achieving synergy savings). However, Mr. Kollen and Mr. Hahn do not provide any basis for their positions, other than that this would be a way of providing immediate savings to customers. Therefore, we oppose these conditions

However, we support three related conditions proposed by Commission Staff witness Ms. Bartels. The first condition, which is labeled "Transition Cost Recovery - Alternate," would allow recovery of transition costs that are: "(a) incurred by or allocated to each of the utilities (each utility's portion or share of acquisition-related transition costs), [and] (b) associated with financial benefits that each utility's ratepayers will receive as a result of the acquisition," so long as "(c) the acquisition-related savings

1 realized by each utility's ratepayers are equal to or greater than its acquisition-related
2 transition costs." Ms. Bartels' condition appropriately protects customers against paying
3 "front-loaded" transition costs that fail to result in corresponding savings. Ms. Bartels'
4 proposed condition appears in item 86 of Ex.-WEC-Lauber-4. I should also note that
5 transition costs may be incurred to deliver qualitative benefits for customers and
6 employees in the areas of safety, reliability, customer satisfaction and so forth. These
7 benefits are somewhat difficult to quantify, but will need to be considered in future test
8 years.

9 We also agree to accept Ms. Bartels' proposed condition in item 79 of Ex.-WEC-
10 Lauber-4 (with the clarification that the "acquisition costs" she references means
11 transition costs). This condition will require that:

12 The utilities (WEPCO, WG and WPSC), in any proceeding in
13 which recovery, analysis and/or justification of acquisition savings
14 is at issue, shall provide a detailed analysis of acquisition costs and
15 savings for Commission review and approval. Such analysis would
16 include:

17 (a) an accounting of acquisition costs incurred by the combined
18 company broken down by function to the extent possible,

19 (b) a calculation of acquisition savings accomplished by the
20 combined company broken down by function to the extent
21 possible, and

22 (c) where costs exceed savings for a particular function, a
23 demonstration that the costs are reasonable and prudent.

24 Finally, we agree to Ms. Bartels' condition in item 81 of Ex.-WEC-Lauber-4 that
25 requires identification and tracking of transition costs in a manner that may be audited by
26 the Commission.

1 The three complementary conditions identified by Ms. Bartels relating to
2 transition costs and future avoided costs/synergy savings will ensure that savings
3 produced by the merger will be passed on to customers. As I noted above and as further
4 discussed by Mr. Leverett, they also render superfluous the various “proxies” for synergy
5 savings that have been identified by Staff, CUB, WIEG and Jobs4WI, including those
6 identified in items 39, 40, 78, 80, 89, 90, 91, 92 and the synergy savings provision of item
7 93 of Ex.-WEC-Lauber-4.

8 Q. Two witnesses offer proposals related to severance costs (items 87 and 88 of Ex.-WEC-
9 Lauber-4). How do you respond?

10 A. Both Ms. Bartels’ and Mr. Kollen’s proposed conditions make sense, with a bit of
11 clarification. Taking Ms. Bartels’ proposal first, we would agree to providing the detail
12 she requests if we take the position that a particular severance payment is a recoverable
13 transition cost. However, we urge the Commission not to require extensive detail on each
14 individual severance payment that is classified as a transaction cost, and therefore not
15 subject to recovery. Mr. Kollen’s proposed condition requires similar clarification. We
16 agree not to defer or seek recovery of severance payments that are transaction costs, but
17 will seek recovery of severance costs that are properly classified as transition costs, after
18 providing the detail required by Ms. Bartels’ condition.

19 Q. And, finally, what is your response to Staff witness Mr. Larson’s proposal concerning a
20 limited reopener for WPSC in 2016 (item 93 of Ex.-WEC-Lauber-4)?

21 A. We have not been able to fully evaluate this proposal. We understand that WPSC is still
22 in the process of working on its revenue requirement for 2016, and until we know what
23 that number is, we are not able to commit to this sort of condition. Also, as we’ve said

1 repeatedly, we do not expect to see immediate synergy savings, which are taken as a
2 given in this proposed condition.

3 Q. Does this complete your rebuttal testimony?

4 A. Yes.